

COMMUNITY PLANNING & DEVELOPMENT SERVICES

City of Rapid City
 300 Sixth Street, Rapid City, SD 57701-2724
 Phone: (605) 394-4120 Fax: (605) 394-6636 Web: www.rcgov.org

**APPLICATION FOR
 TAX INCREMENT
 FINANCING**

LEGAL DESCRIPTION

Legal Description *(Attached additional sheets as necessary)*

SEE ATTACHED

Location 105, 107, 111, 115, 121, AND 125 E. ST. JOSEPH, AND 611 MAPLE

Size of Site-Acres 3.19 ACRES APPROX. 58

APPLICANT

Name TECHNOLOGY HOUSING 2, L.L.C. Phone (605) 348-0538
 Address 528 KANSAS CITY STREET Fax (605) 348-0545
 City, State, Zip RAPID CITY, SD 57701

PROJECT PLANNER - AGENT

Name DREAM DESIGN INTERNATIONAL, INC. Phone (605) 348-0538
 Address 528 KANSAS CITY STREET Fax (605) 348-0545
 City, State, Zip RAPID CITY, SD 57701

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Property Owner Signature <i>Hani Shafai</i>	Date 9-4-14	Property Owner Signature	Date
Applicant Signature (if difference from Property Owner) Print Name: <u>HANI SHAFAI FOR TECHNOLOGY HOUSING 2, LLC</u>	Date	Applicant Signature (if difference from Property Owner) Print Name:	Date
Title* <u>MEMBER MANAGER</u>		Title*	

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*required for Corporations, Partnerships, Etc.

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An application for the use of Tax Increment Financing must include the following information or the project will not be processed. **Attachments may be provided in order to fully provide the following information.**

APPLICATION INFORMATION <i>(attach additional sheets as necessary)</i>	Submitted
1. A detailed project description.	<input checked="" type="checkbox"/>
2. Purpose of the Tax Increment Financing.	<input checked="" type="checkbox"/>
3. List of project costs to be funded by the Tax Increment Financing including identification of typical developer costs, exceptional costs and oversizing costs. The applicant shall provide written justification when the sum of the Necessary and Convenient Costs and Contingency Cost line items exceed 10% of the total Project Costs. The proposed project costs shall include an itemized list of all Estimated Costs, including the Professional Fees.	<input checked="" type="checkbox"/>
4. A preliminary development financing plan, including sources of funds, identification of lender, interest rates, financing costs and loan terms.	<input checked="" type="checkbox"/>
5. The applicant shall identify all persons and entities that have an interest in the project and/or in the entity applying for the tax increment financing district. The disclosures shall require identification of all members of an LLC or LLP, other partners, investors, shareholders and directors of a corporation or any other person who has a financial interest in the project or in the entity applying for the tax increment financing. This provision requires identification of all persons who have an interest in the project, including those whose interest exists through, an LLC, LLP, corporation (whether as a director or shareholder) or other legal entity. The applicant shall be under a continuing obligation to update this disclosure within thirty (30) days of any changes throughout the application process and throughout the	<input checked="" type="checkbox"/>

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life of the developer's agreement. If the applicant is a publicly traded company, the applicant shall be deemed to have complied with this provision if it has provided the City a copy of its most recent annual report with the application.	
6. A pro forma indicating projected costs and revenues.	<input checked="" type="checkbox"/>
7. A statement and demonstration that the project would not proceed without the use of Tax Increment Financing.	<input checked="" type="checkbox"/>
8. A statement identifying the specific Statutory, Other Local and Discretionary evaluation criteria that the applicant believes the request meets. <i>(Please refer to the Tax Increment Financing Guide for specific evaluation criteria).</i>	<input checked="" type="checkbox"/>
9. Conceptual plans, sketches, maps or site plans for the project.	<input checked="" type="checkbox"/>
10. A development time schedule including specific phasing of improvements and project costs.	<input checked="" type="checkbox"/>
11. A list of the specific public improvements and a list of the specific private improvements proposed to be constructed along with the project.	<input checked="" type="checkbox"/>
12. Corporation, LLC, partnership papers or other business documents identifying the parties with ownership interest in the corporation and property involved in the project, including land ownership, contract for deed or other contractual information relating to control of the property and the applicant's ability to complete the project.	<input checked="" type="checkbox"/>
13. A financial statement of the corporation, partnership, or individual for the most recent five years or life of the company.	<input checked="" type="checkbox"/>
14. A copy of the proposed wage scale, employee benefits package, and full and part time employment levels or, in the case of an affordable housing project, a copy of the applicable federal housing grant program.	<input checked="" type="checkbox"/>
15. The applicant shall notify by certified, return receipt mail every owner of property contained within the proposed boundaries of a tax increment district and shall notify by first class mail every owner of property that is adjacent to the proposed boundaries of the tax increment district. The notification shall contain the proposed boundaries as well as a description of the proposed improvements. The Growth Management Department shall provide the applicant with a list of property owners to be notified. The return receipts shall be directed to the Growth Management Department. The applicant shall pay a fee of \$20.00 per list for the cost of compiling the two property owners lists.	<input checked="" type="checkbox"/>
16. A \$1,000 non-refundable application fee.	<input checked="" type="checkbox"/>
17. Other information that may be required by the Tax Increment Finance Project Review Committee.	<input type="checkbox"/>

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Legal Description:

Lots 1-16, Block 5, Denman's Subdivision, Section 1, T1N, R7E, BHM, RAPID CITY, PC, SD ^{EB}

ALL OF Public Alley adjoining south side of above properties

ALL OF Right of Way along E. St. Joseph Street adjoining above properties

ALL OF Right of Way along Maple Avenue adjoining above properties

ALL OF Right of Way along Myrtle Avenue adjoining above properties

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EXHIBIT 3 – PROJECT PRO FORMA OPERATIONAL CASH FLOW

EXHIBIT 4 – ESTIMATED PROBABLE COSTS

EXHIBIT 5 – ESTIMATED PROJECTED CASH FLOW FOR TID

APPENDIX

- BUSINESS ENTITY..... 3 PAGES
- 100 BLOCK EAST ST. JOSEPH STUDENT HOUSING TIF BOUNDARY
- 100 BLOCK EAST ST. JOSEPH STUDENT HOUSING VICINITY MAP

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- 100 BLOCK EAST ST. JOSEPH STUDENT HOUSING CONCEPTUAL BUILDING ELEVATION
- 100 BLOCK EAST ST. JOSEPH STUDENT HOUSING CONCEPTUAL FLOOR PLANS...5 PAGES
- CITY MEMORANDUM REGARDING 105 E. ST. JOSEPH DEMOLITION ORDER.....2 PAGES
- CITY MEMORANDUM REGARDING 105 E. ST. JOSEPH DEMOLITION ORDER.....2 PAGES
- SOUTH DAKOTA SCHOOL OF MINES & TECHNOLOGY HOUSING MASTER PLAN 2013
47 PAGES

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100 BLOCK ST. JOSEPH STUDENT HOUSING TIF

1. PROJECT DESCRIPTION:

In 2012, A TIF was approved to help provide housing for the South Dakota School of Mines and Technology, resulting in the construction of the Rocker Square apartments. Rocker Square fulfilled its purpose of providing a larger number of modern housing units targeted at the students of SDSM&T in place of the substandard rental housing that previously occupied the half block where the Rocker Square buildings now stand. In the short time that has passed since that TIF was considered, the South Dakota School of Mines and Technology has grown at a pace exceeding expectations, and they continue to be faced with shortage of housing for their students. SDSM&T expects to issue a request for proposal this year for additional housing for their students, but it is targeted at housing only for freshman and sophomores, leaving juniors, seniors, and graduate students, with limited options in the neighborhood for rental housing.

The university has been an important part of the social and economic fiber of Rapid City, the Black Hills, the State of South Dakota, and several regional states. The neighborhood around the school has aged significantly and deteriorated in many cases, and there is a need to continue to redevelop the areas surrounding SDSM&T to ensure Rapid City can continue to reap the benefits from a rapid expanding, world class student body. The growth of the university needs assistance to ensure it is not limited by:

- 1 - Lack of housing for graduate and undergraduate students,
- 2 - Areas of substandard housing around the university that can inhibit a better education atmosphere,
- 3 - Some of the social issues relating to the nonstudent population as it affects the safety of the student population,
- 4 - Facilities in the surrounding neighborhood that do not accommodate future expansion of the university, and
- 5 - A gap in the connection between the area around SDSM&T and Downtown Rapid City that could prevent a vibrant interaction between the City and School.

The South Dakota School of Mines and Technology is continuing to see increases in its student body, and is receiving more and more publicity as it does. As its profile continues to rise nationally this growth trend shows no signs of abating, making the housing needs an ongoing issue for the near term.

To achieve the goals for the neighborhood clean-up, and to provide the housing needs, the university has solicited the private sector to help with these tasks in a time of limited funding sources. The aged single family houses in the blocks west of the campus are valued extremely high compared to their relative structure value based off the rents owners are able to charge and the low vacancy rate. We are proposing to redevelop the north half of the block between St. Joseph Street and Kansas City Street bordered by Maple Avenue on the East and Myrtle Avenue on the West. This property will be redeveloped into new facilities that will generate a huge increase in real estate taxes. The lots included are 1 through 16 of Block 5 of Denman's Subdivision. The project will provide needed housing units for the South Dakota School of Mines and Technology. This redevelopment will not happen without the use of a tax increment district financing.

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2. PURPOSE OF THE TAX INCREMENT DISTRICT FINANCING:

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- 1 - Redevelopment of deteriorating blighted real property in Rapid City into student housing.
- 2 - Stimulate economic development in the community through the expansion of the South Dakota School of Mines and Technology. This growth will promote long-term economic vitality of the community.
- 3 - The TIF will assist in the redevelopment of an area that has substandard housing that carries a high price tag. Such high priced property has forced the property to remain under-developed. The redevelopment of this property will, in the long term, provide a significant source for additional tax revenues.
- 4 - The removal of the existing substandard structures on the property, and the redevelopment of the property into student housing, will provide safe and affordable housing to students within walking distance of the classrooms.
- 5 - The TIF will facilitate the reconstruction of a public alley which will provide better maintenance and will complete some of the public infrastructure in the community.

3. PROJECT COSTS:

The project will include the redevelopment of lots 1 through 16 of Block 5 of Denman's Subdivision located south of East St. Joseph Street between Maple Avenue and Myrtle Avenue. This includes:

- 1 - Purchase of the property, estimated costs of near \$800,000;
- 2 - Demolish existing substandard structures, estimated costs of \$100,000;
- 3 - Install pavement and bury the power lines in the public alley located south of the property, estimated costs of \$100,000;
- 4 - Professional Fees, estimated costs of \$30,000;
- 5 - Contingency, estimated costs of \$30,000;
- 6 - Necessary and Convenient costs of \$2,000;
- 7 - Financing Expenses, estimated based on 7.5% at \$1,151,157; → 9% FB
- 8 - The total costs anticipated for the project are \$2,213,157.

It is anticipated that the TIF funding tool will be utilized for \$2,213,157 of the project costs to cover the extreme land costs, demolition, public alley reconstruction, and financing expenses. Please see "EXHIBIT 1"

4. PRELIMINARY DEVELOPMENT FINANCING PLAN:

The developer will fund the TIF component of the project through a loan at Great Western Bank. The terms of the loans have not been finalized. It is anticipated that the interest rate over the life of the TIF will be near 6%. It is anticipated that the interest rate will not exceed 9% during the life of the TIF. Developer will provide the terms for financing prior to the City Council approval of the TIF plan.

5. LIST OF ENTITIES INVOLVED:

The project will be developed by a local development company by the name Technology Housing 2, LLC. The members of this company are Pat Hall and Hani Shafai who own equal shares in the development company. They have executed agreements to purchase all properties within the TIF. "EXHIBIT 2" is a list of all current property owners of record for the properties.

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6. PROJECT FINANCIAL FEASIBILITY (PRO FORMA):

The housing project will not be financially feasible without tax increment financing assistance. Please see the attached "EXHIBIT 3"

7. PROJECT FEASIBILITY:

The land proposed to be utilized to construct the student housing will cost more than \$12 per square foot to purchase. Typically land in a new neighborhood that is more attractive and desirable than this property will cost \$2 per square foot. Environmental cleanup will be extremely costly to clean up the area and make it buildable. Based on the cash flow and project pro forma attached, the project will not be feasible without the TIF financing.

8. STATUTORY CRITERIA:

The project meets the requirements for SDCL 11-9-8 as listed below:

- 1 - The proposed project is located in a district area that has more than 25%, by area, of the real property within its boundary that is blighted;
- 2 - The improvements of the area will significantly enhance all the real property in the district.

This project is proposed in an area conducive to disease or crime and is defined as blight and meets the requirements for SDCL 11-9-9 as listed below:

- 1 - Dilapidation, age, or obsolescence;
- 2 - The existence of conditions which endanger life or property by fire and other structural causes;
- 3 - The area is conducive to ill health, juvenile delinquency, and crime which are detrimental to the public health, safety, morals, and welfare.

The substandard area on which the project will be developed has driven away prospective students due to the unsanitary housing that currently exists in the area. The high income from the existing substandard housing created an inflated value for the property. Such value prevented the development in the area and contributed to the continuation of the social and safety problems on the property. The property impaired the growth and meets the blight requirements for SDCL 11-9-10 as listed below:

- 1 - The presence of a substantial number of substandard, slum, deteriorate or deteriorating structures;
- 2 - Deterioration of the site and other improvements;
- 3 - The existence of conditions which endanger life or property by fire and other structural causes;
- 4 - The area impairs the sound growth of the community, retards the provision of housing accommodations and constitutes an economic and social liability to the community.

The site meets the requirements for blight as defined by SDCL 11-9-11 because the site has severe deterioration of structures and site improvements. The location of such deficient facilities

impairs the growth of the South Dakota School of Mines and Technology and therefore the growth of the municipality.

In addition, the project meets the following criteria:

- 1 - This project will not occur without the use of Tax Increment Financing. Please refer to the PRO FORMA shown in "EXHIBIT 3"
- 2 - The project will eliminate potential hazard to the public due to unsafe buildings and due to site social liabilities and delinquencies. Two of the properties have been issued demolition orders by the City due to unsafe conditions.
- 3 - The project will not provide assistance to retail or service business competing with existing businesses in Rapid City.

ADDITIONAL CRITERIA:

- 1 - The project complies with the adopted Comprehensive Plan for the City and is consistent with the Housing Master Plan prepared in 2013 for the South Dakota School of Mines and Technology. Goal EC-2.3A from the Rapid City Comprehensive Plan recommends the development of quality housing near Downtown and the educational facilities and redevelopment of the area between SDSM&T and Downtown, both which are accomplished in this proposed project. In addition BPG-1.2A encourages infill development of priority areas, and this project location is along one of the revitalization corridors identified in the Future Land Use Map that is part of the Comprehensive Plan.
- 2 - The project will remain privately held and stay on the tax roll. The project will not result in the net loss of pre-existing tax revenues to the City.

DISCRETIONARY CRITERIA:

- 1 - The TIF is being utilized to redevelop an area that has created a social and economic liability to the community.
- 2 - The project will clean up an area around the South Dakota School of Mines and Technology to help economic development through:
 - a- Attracting more students and research funds to the university,
 - b- Provide for a safer education environment that will require less law enforcement costs,
 - c- Provide safe, suitable student housing within walking distance to the classrooms to allow for university sustainable growth.
- 3 - Create a better and more enjoyable atmosphere to the student and have better community retention of the professional engineers graduating from the university.

9. CONCEPTUAL PLANS:

Please see the attached 6 pages of conceptual project plans, labeled Exterior Elevations – 100 Block Apartment Concept and 1st Floor through 5th Floor Plans – 100 Block Apartment Concept.

10. DEVELOPMENT TIME SCHEDULE:

It is the intent of the development group to start the project in Fall 2014 and complete the building in 2015. The TIF should be paid off in approximately 20 years, please see "EXHIBIT 5".

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11. LIST OF PUBLIC AND PRIVATE IMPROVEMENTS:

This project is a public/private improvement undertaken with the goals to provide affordable housing to students attending a public state institution and clean up an environmental hazard within close proximity of SDSM&T. The anticipated improvements are as follows:

- 1 - Purchase of the property, estimated costs of near \$800,000;
- 2 - Demolish existing substandard structures, estimated costs of \$100,000;
- 3 - Install pavement and bury the power lines in the alley located south of the property, estimated costs of \$100,000;
- 4 - Professional Fees, estimated costs of \$30,000;
- 5 - Contingency, estimated costs of \$30,000;
- 6 - Necessary and Convenient Costs of \$2,000;
- 7 - Financing Expenses, estimated based on 7.5% at \$1,151,157; → 9% EB
- 8 - Construct approximately 96 student housing apartments, estimated costs of \$9,870,000;

The total costs anticipated for the project are \$12,083,157. Please see attached cost breakdown "EXHIBIT 4"

12. LLC ARTICLES OF CORPORATION:

See attached.

13. FINANCIAL INFORMATION:

Technology Housing 2, LLC is a new limited liability corporation and has no financial information at this time.

14. WAGE SCALE:

The project will directly employ 2 staff members at an average wage exceeding minimum wage. There will be a full time apartment manager as well as a part time maintenance employee on an as needed basis.

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